

Message Text

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72

ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PA-04 USIA-15 PRS-01 DRC-01 /158 W

----- 114190

R 131730Z NOV 73

FM AMEMBASSY SANTIAGO

TO /SECSTATE WASHDC 6527

INFO AMEMBASSY ASUNCION

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

473)"/AMEMBASSY LA PAZ 1157

AMEMBASSY LIMA

AMEMBASSY MONTEVIDEO

AMEMBASSY QUITO

AMEMBASSY RIO DE JANEIRO

C O N F I D E N T I A L SANTIAGO 5564

E.O. 11652: GDS

TAGS: ECON, CI

SUBJECT: AUSTERITY BEGINS TO HURT

REF: (A) SANTIAGO A-209; (B) SANTIAGO 5475

1. SUMMARY: NEARLY TWO MONTHS OF AUSTERITY HAS BROUGHT
PREDICTABLE RUMORS OF UNHAPPINESS FROM THOSE WHO FEEL PARTICULARLY
HARD HIT. THE DECIBEL LEVEL OF PROTEST IS STILL LOW AND GOC IS
TRYING TO GET ALL CHILEANS TO ABIDE BY NEW ECONOMIC RULES OF GAME.
LACK OF GOC COORDINATION AND SHORTAGE OF TALENT AT SECONDARY
AND TERTIARY LEVELS HAS PREVENTED SOME ESSENTIAL PROGRAMS (SUCH AS
PUBLIC WORKS AND AID TO VERY POOR) FROM GETTING STARTED QUICKLY.
TECHNOCRATS SAY JUNTA STILL FIRMLY COMMITTED TO IMPLEMENTATION
THEIR PROGRAM BUT, WITH RAUL SEEN BACK IN TOWN APPARENTLY TO STAY,
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"CHICAGO BOYS" SEEM A BIT NERVOUS THAT THEIR PLANS MAY GO AWRY.

END SUMMARY

2. A REMARKABLE TURNAROUND HAS OCCURRED IN CHILE SINCE SEPTEMBER 11. AN ECONOMY BORDERING ON HYPERINFLATION DUE TO EXCESS DEMAND IS NOW THREATENED WITH STAGFLATION. FEW CHILEANS TODAY CAN AFFORD TO BUY MORE THAN ABSOLUTE ESSENTIALS. THIS IS PARTIALLY DUE TO LARGE INCREASES (OFTEN 500-1000 0/0) IN PRICE CONTROLLED ITEMS WHICH WERE KEPT RIDICULOUSLY LOW BY THE ALLENDE GOVERNMENT. EQUALLY IMPORTANT TO MIDDLE AND UPPER INCOME GROUPS HAVE BEEN THE 100-200 0/0 INCREASES IN PRACTICALLY EVERY GOOD OR SERVICE SINCE SEPTEMBER, EVEN THOUGH PREVIOUS PRICE LEVELS WERE ALREADY HIGH. THIS RESULTS FROM CHILEAN PRODUCERS, PROFESSIONALS AND RETAILERS TRYING TO MAINTAIN THEIR REAL INCOME AS BEST THEY CAN.

3. THE GOC IS AWARE OF TIGHT LIQUIDITY SITUATION BUT IS VERY CAUTIOUS IN EXPANDING BANK CREDIT TO PRIVATE SECTOR. INSTEAD, MINECON LENIZ HAS MET WITH MANUFACTURERS AND RETAILERS IN ATTEMPT TO JAWBONE THEIR PRICES DOWN. HE HAS ADVISED THEM TO RELY ON LOW PRICES (BASED ON CURRENT, NOT ANTICIPATED COSTS) AND HIGH TURNOVER TO PROVIDE ADEQUATE PROFIT LEVEL, BUT NOT TO EXPECT RECOUP LOSSES OF RECENT YEARS QUICKLY. THIS CAME AS SHOCK TO CHILEANS WHO ARE MORE ACCUSTOMED TO CONCEPT HIGH PRICES, LOW TURNOVER AND BANK FINANCED CREDIT AT NEGATIVE INTEREST RATES. LENIZ SAID GOC WOULD TAKE URGENT MEASURES AGAINST THOSE NOT ABIDING BY NEW RULES OF GAME. FOR EXAMPLE, HE TOLD PHARMACEUTICAL INDUSTRY THAT FREE IMPORTATION DRUGS WOULD BE ALLOWED IF THEY FAILED TO LOWER PRICES AND DROP MONOPOLISTIC PRACTICES. SOME PRICES ARE BEGINNING TO DECREASE BECAUSE PRODUCERS AND RETAILERS NEED CASH TO MEET PAYROLLS, BUT THIS SO FAR IS NOT WIDESPREAD.

4. GOVERNMENT STILL HAS NOT REACHED ACCEPTABLE SOLUTION TO PROBLEM OF PROVIDING NECESSARY INCOME TO POOREST ELEMENT POPULATION. EMBASSY SOURCES SAY URBAN POOR ARE HAVING REAL TROUBLE FEEDING THEMSELVES, EVEN IF EMPLOYED. LARGE AND GROWING BODY OF UNEMPLOYEED IS IN MORE DESPERATE STRAITS. MIDDLE CLASS IS ALSO FEELING SEVERE PINCH. SUCH GRUMBLING AS IS OCCURRING IS NEITHER VERY PUBLIC NOR VERY LOUD, BUT IT IS ON THE RISE.

5. PERHAPS MAIN REASON THAT CONCRETE STEPS HAVE NOT BEEN TAKEN
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TO CORRECT PRESENT HIGH RATE UNEMPLOYMENT AND INADEQUATE LEVEL EFFECTIVE DEMAND IS LACK OF COORDINATION AND ADMINISTRATIVE SKILL AT SECOND AND THIRD LAYERS OF GOC. GIVEN EXTRAORDINARY DEMANDS UPON THEM AT THIS TIME, THERE ARE SIMPLY TOO FEW CAPABLE PEOPLE. NOT SURPRISINGLY, MANY DECISIONS TAKEN AT POLICY LEVEL WITHIN BUREAUCRATIC VINE. FOR EXAMPLE, EMBASSY IS TOLD WORKERS EARNING LESS THAN \$12,000 MONTHLY MINIMUM WAGE STILL NOT RECEIVING INCOME SUPPLEMENT BECAUSE MECHANISM TO PAY THIS HAS NOT BEEN ESTABLISHED.

MORE IMPORTANTLY, QUICK PUBLIC WORKS PROJECTS TO ABSORB LARGE NUMBERS OF UNEMPLOYED HAVE NOT GOTTEN STARTED NOR ARE UNEMPLOYMENT BENEFITS REACHING MANY PEOPLE. THERE IS NO EVIDENCE OF COORDINATED GOC EFFORT TO DEAL QUICKLY WITH NEED TO FIND JOBS FOR THOUSANDS OF CHILEANS COMING INTO JOB MARKET FOR FIRST TIME AND MANY OTHERS FIRED FROM PUBLIC SECTOR BY MILITARY AFTER COUP. SITUATION WOULD BE WORSE EXCEPT FOR GOC RULE THAT ALL REQUISITIONED AND INTERVENED FIRMS BEING RETURNED TO OWNERS MUST KEEP ON ALL WORKERS NOT UP MILITANTS. WITHIN PERHPAS A YEAR LARGE PROGRAM IN CONSTRUCTION, MINING AND INFRASTRUCTURE MAY BEGIN TO HAVE EFFECTS, BUT SHORT-TERM PROBLEM REMAINS TO BE DEALT WITH.

6. DURING PAST WEEK OR TWO, TECHNOCRATS HAVE BEEN WORRIED THAT GOC WAS DRIFTING AWAY FROM PRICE AND WAGE POLICY THEY HAD RECOMMENDED. CENTRAL BANK HAS NOT DEVALUED MERCHANDISE (BANKERS') RATE AS FAR AS TECHNOCRATS RECOMMENDED AND LENIZ ASSURED PRODUCERS THAT BANKERS' RATE WOULD NOT RISE TO E400-450 WITHIN NEXT FEW MONTHS AS MANY OF THEM WERE ANTICIPATING IN THEIR COST CALCULATIONS. DECISION TO REVALUE BROKERS' RATE AND COMBINE IT IN NOT TOO DISTANT FUTURE WITH MERCHANDISE RATE (REF B) IS ALSO CONTRATY TO TECHNOCRAT ADVISE. REPORTEDLY THIS POLICY SUPPORTED BY RAUL SAEZ, WHO RETURNED SANTIAGO THIS WEEK AND SAYS HE PLANS STAY FRO AWHILE. TECHNOCRATS TELL US PRIVATELY THAT EVERYTHING IS STILL UNDER CONTROL AND THERE ARE NO IMPORTANT ECONOMIC POLICY DIFFERENCES WITH GOC. WE SENSE, HOWEVER, THAT THEY ARE NERVOUS ABOUT CHALLENGES TO THEIR POLICY RECOMMENDATIONS COMING FROM SEVERAL QUARTERS.

THOMPSON

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